2003 ANNUAL REPORT

idc
imaging dynamics

DIGITAL RADIOGRAPHY MADE SIMPLE

idc contents

April, 2004

Dear Shareholders,

This has been a milestone year for the company. We have successfully transitioned the company through its startup stages into a company that is technically, structurally and financially positioned to compete on a global scale.

The business plan in 2003 focused on three key areas: 1) completion of our core technology 2) clinical and scientific acceptance of our products 3) revenue growth. I am pleased to report that by the fourth quarter of 2003, the company had met all three of these important objectives.

Success starts with having a solid product. The IDC Xplorer™ digital imaging detector, our core technology, today delivers the highest levels of resolution, efficiency and reliability of any direct digital capture technology in the world. Of equal importance, IDC has developed, in house, a complete suite of world-class software for image processing, connectivity and user interface. Also launched in 2003, the new Xplorer™ 1800 and Xplorer™ 1500 models represent the latest in clinical functionality and features. The IDC Xplorer™ digital product line today represents the best price-to-performance ratio in the industry, with leading quality, throughput and reliability.

For any company, designing, developing and marketing a quality product is only the start. The customer ultimately determines our destiny. As an early-stage technology company in a very discriminating market, IDC faced the challenge of finding early adopters and building 'luminary' sites. By year-end 2003, I am pleased to report that we had established a solid base of customers for each of our product models in a wide variety of hospitals and clinics across North America. Many of the sites that have chosen the Xplorer™ this year are leading-edge institutions that demand the best and latest technology. As we grow the company, I believe this will serve as our best advertisement for the Xplorer™ technology.

From the beginning, we have recognized the importance of independent, third party validation of the physics and science of our detector technology. Robin Winsor, our inventor and Chief Technical Officer has worked closely with many of the most respected medical physicists in North America. He was selected in 2003 as a guest speaker at the annual meeting of the American Association of Physicists in Medicine. In addition, Dr. J.A. Seibert, Professor of Radiology at University of California at Davis and world-renowned physicist was asked to conduct independent clinical tests on the Xplorer™ system. In September 2003 Dr. Seibert issued a comprehensive report that stated:

"... the current IDC detector is a very robust system and can compete equally or exceed other digital detector performance levels (including CR and flat-panel DR) for an equivalent or superior signal to noise ratio at a similar incident exposure (patient dose)."

Dr. J.A. Seibert, PhD.

Financially, I am pleased to report that the company has now met or exceeded plan for seven consecutive quarters. In 2003, revenues grew throughout the year finishing with an eight-fold increase in revenues over 2002. A disciplined focus on operating expenses and product margins resulted in the strongest financial year in the history of the company. By years end, shareholders began to receive the recognition and appreciation that reflects the company's progress.

The year 2003 has been about building a foundation. I want to thank the very talented team we have put together at IDC who deserve a tremendous amount of recognition for their dedication and effort. I would also like to thank our dealers and distributors for representing IDC and our unique approach to digital radiography.

Lastly, on behalf of our Board of Directors and employees, I would like to acknowledge and thank our valued shareholders for their patience and support.

As a fellow shareholder, I look forward to sharing a very exciting future with you.

Sincerely,

Darryl Stein
President and C.E.O.
Imaging Dynamics Company Ltd.

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes in the Company's financial statements for the years ended December 31, 2003 and 2002.

Special Note Regarding Forward Looking Information

Certain statements in Management's Financial Discussion and Analysis, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These can include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to all aspects of the medical imaging industry. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages in the field of digital radiography, the Company's ability to attract and retain key employees, the enforceability of the Company's patents, the Company's ability to raise capital on acceptable terms when needed, and the availability of key components. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change.

Results of Operations

Accounting Policy Notes: In the fourth quarter of 2003, the Company adopted the fair value method of accounting for stock options granted to employees and directors after January 1, 2003. The impact of this voluntary adoption was an increase to expenses in the amount of $288,956 in the fourth quarter. As well, the Company took a conservative approach by expensing software development and product development costs that were previously considered for capitalization. This further increased expenses by $298,750. The combined effect of these two decisions reduced income by $587,706. Had it not been for the application of these items, the loss for the year ended December 31, 2003 would have been $969,607. Details of these significant accounting policies is further discussed in Notes 2 and 3 of the financial statements.

The Xplorer™ product line gained significant traction during the year as compared to previous years. Revenues have grown for six consecutive quarters with a dramatic increase in the fourth quarter of 2003. The Company experienced over an eight fold increase in revenues from $773,558 in 2002 to $6,721,135 in 2003. Most of the revenues continue to be as a result of sales to dealers in the

United States. The Company did have a sale in Korea during the year and will continue with its efforts to expand its reach in Asia, specifically China and Korea as well as Europe and the Middle East.

The cost of goods sold (COGS) during the year amounted to $3,926,260 resulting in a 42% gross margin or $2,794,875. The gross margin has continually improved from previous quarters where the Corporation achieved 16% gross margin for the comparable period last year. The increased margins are the result of achieving a higher sell price combined with the effect of COGS reduction initiatives and re-negotiating supplier contracts and components based on volume.

Sales and marketing expenses significantly increased from $878,828 in 2002 to $1,359,527 for fiscal 2003, an increase of 55%. Early to mid last year, the Company ceased most of its sales and marketing activities as it transitioned away from a direct sales model to a channel strategy. This year, the Company aggressively pursued its channel strategy resulting in increased expenses in sales support, dealer training, and sales related travel. In addition, the Company embarked on a new branding strategy and launched two new products during the year, the Xplorer™ 1500 and the Xplorer™ 1800. The Company also attended the Radiological Society of North America trade show (RSNA) in a larger scale, as well as participated in the American Healthcare Radiology Administrators trade show (AHRA) in California. The Company did not attend the AHRA last year. The Company intends to increase its participation in other trade shows in 2004.

As expected, Research and Development costs in 2003 declined by 17% or $187,863. The company will continue to expend R&D dollars to develop further product lines to address the needs of other related markets such as orthopedics, as well as the diverse needs of the international markets. In 2003, the Company focused its R&D resources on developing its own in house workstation software and algorithms as well as a new fully automated and integrated stand (Xplorer™ 1800) that was launched at the RSNA in Chicago during the first week of December. As well, the Corporation launched an upright stand (Xplorer™ 1500) in Q2 of this year to address the upright and chest market. As mentioned earlier, the development and design of these new product lines were expensed to research and development and production and manufacturing as they were incurred.

The production and manufacturing costs had an increase of $238,420, from $550,873 in fiscal 2002 to $789,293 for fiscal 2003. The overall increase reflects the costs incurred to develop and launch the Xplorer™ 1500, the Xplorer™ 1800 and the COGS reduction initiatives undertaken to improve margins on all the product lines. In addition, the Corporation incurred additional expenses to meet the ISO and CE mark certification requirements.

The Company continues to keep its general and administrative (G&A) expenses to a minimum as it experiences significant growth. On a year-over-year basis, G&A expenses were actually lower by $104,013, or 12%, from $832,361 in 2002 to $728,348 in 2003. The overall decrease in G&A expenditures reflects the effect

of the Company implementing many cost rationalization decisions, including fewer management and support staff, elimination of infrastructure and overhead in the United States and a more focused approach to the technology commercialization process.

The depreciation and amortization expense was lower by 13% to $177,424 during 2003 as compared to $204,193 for the previous year. The reduction is the result of the Corporation disposing of its office and lab facilities last year. This transaction is also reflected in the significant reduction in interest expense, from $71,263 to $10,258 on a year-to-date basis, as the mortgage on the sold assets was retired.

With respect to foreign currency fluctuations, the Corporation incurred a loss of $67,085 in 2003 as compared to a gain of $6,500 in 2002. The Company expects that the impact of foreign currency fluctuations, especially with the US dollar, will have a significant impact on the future financial statements as the Company's sales are, in large part, to the US marketplace. The natural hedge of having US dollar payables and expenses will partially offset this risk.

As mentioned previously, the Company has voluntarily adopted the fair value method of accounting for stock options granted to directors and employees after January 1, 2003. These compensation costs are separately identified on the income statement. The valuation of $288,956 was derived using the Black-Scholes option pricing model, the variables of which are more fully described in note 8 (d) of the financial statements.

In total, operating expenses increased by $614,024, or 16%, from $3,742,376 to $4,356,400 during fiscal 2003 as compared to fiscal 2002. The increase can mostly be attributed to the increased expenses in sales and marketing, the expensing of development costs and the expensing of stock options.

The interest and other income was higher by $22,267 in 2003. This is due to the Corporation holding higher cash balances than in the previous year. Last year the Company wrote off $786,440 worth of inventory as compared to $60,504 this year. The 2002 write off was the result of obsolete items and unusable software licenses. The current year included damaged and obsolete inventory items.

During fiscal 2002, the Corporation entered into a sale and leaseback agreement. Land and buildings, including building improvements, and equipment were sold for $711,357 net of selling expenses. This resulted in a loss of $41,044. No such transaction occurred in 2003.

Cash Flow Applied to Operations

For the year ended December 31, 2003 the company incurred a net loss of $1,557,313 as compared to a net loss of $4,413,083; an improvement of $2,855,770 or 65%. The Company applied 75% or $3,051,853 less cash towards operating activities during fiscal 2003 as compared to the same period in 2002; $1,020,533 as compared to $4,072,386.

However, the Company's working capital requirements have significantly increased from $34,264 in 2002 to $3,422,450 in 2003. The changes in non-cash working capital needs relates to the following:

Firstly, an expected yet dramatic increase in the accounts receivable of $4,560,234 during the year. Clearly, as the Corporation increases its sales volume, the amount of working capital required to fund the receivables will also increase. In addition, as the Company sells to the dealer and not to the end user directly, the receivable turnover is further exacerbated.

During the year, the working capital requirements were further increased by an increase in prepaids and deposits ($44,565 higher).

The significant working capital required to fund receivables was partially offset by lower inventory ($544,175 lower) and higher accounts payables and accrued liabilities ($615,041 higher). Both the inventory and the accounts payable accounts are expected to fluctuate as the Company orders many of its raw materials in quantities to take advantage of preferred pricing and draws down the inventory as it makes sales.

From a financing perspective, through equity issues, the Corporation raised, net of expenses, $3,035,101 during fiscal 2003 as compared to $3,618,478 for the same period last year. Most of this year's number reflects the exercise of warrants previously issued in 2002. Even though this had no effect on cash flows, a non-cash transaction worth noting is the issuance of 4,587,859 shares during 2003 on the conversion of $2,298,144 worth of debentures. The transaction impact is recorded in the equity section of the balance sheet.

During the year, the Corporation redeemed $1,450,000 in term deposits to meet its working capital needs. As well, the Corporation drew $850,000 on its line of credit and $31,000 on an unsecured, non-interest bearing loan from the Government of Canada. The Company paid $25,000 against the Alberta Heritage Foundation for Medical Research (AHFMR) loan.

Last year, the Corporation also received an additional $150,000 loan from a shareholder. As well, the Corporation entered into a sale and leaseback agreement. Land and buildings, including building improvements, and equipment were sold for $711,357 net of selling expenses. The proceeds were used to pay off the mortgage in the amount of $600,211 and current portion of the mortgage and loans in the amount of $16,936 and $5,715 worth of capital leases. No such transactions occurred during the twelve months of 2003. During fiscal 2003, the Corporation purchased capital assets in the amount of $170,477, which included patent applications, lab equipment, a dry laser film printer and service and quality systems software.

We have audited the balance sheet of Imaging Dynamics Company Ltd. as at December 31, 2003 and the statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2002 and for the year then ended were audited by another firm of chartered accountants who expressed an unqualified opinion on these financial statements in their report dated February 20, 2003.

Grant Thornton LLP

Chartered Accountants

Calgary, Canada
March 12, 2004, except for Note 16,
which is as of April 1, 2004

Balance Sheet - December 31, 2003

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$1,414,576	$686,935
Short-term deposit (note 4)	–	1,450,000
Accounts receivable	4,888,355	328,121
Inventory	1,249,364	1,793,538
Prepaid expenses and deposits	56,565	12,000
	7,608,860	4,270,594
Capital assets (note 5)	590,310	597,258
	$8,199,170	$4,867,852
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$2,296,005	$1,680,964
Deferred revenue	115,631	92,498
Current portion of loans payable (note 6)	906,000	38,678
	3,317,636	1,812,140
Warranty liability	70,400	–
Loans payable (note 6)	89,013	100,335
	3,477,049	1,912,475
Shareholders' equity:		
Share capital (note 8)	25,567,761	20,234,516
Contributed Surplus (note 8e)	705,341	416,385
Convertible Debentures (note 9)	188,106	2,486,250
Deficit	(21,739,087)	(20,181,774)
	4,722,121	2,955,377
	$8,199,170	$4,867,852

Future operations (note 1)
Commitments (note 12)
Subsequent events (note 16)

See accompanying notes to financial statements.

Approved by the Board of Directors

(signed) John Ramsay ________ Director

(signed) Darryl Stein ________ Director

Statement of Operations & Deficit - Year ended December 31, 2003

	2003	2002
Sales	$6,721,135	$773,558
Cost of goods sold	(3,926,260)	(651,756)
	2,794,875	121,802
Expenses:		
Sales and marketing	1,359,527	878,828
Research and development	935,509	1,123,372
Production and manufacturing	789,293	550,873
General and administration	728,348	832,361
Depreciation and amortization	177,424	204,193
Foreign exchange loss (gain)	67,085	(6,500)
Interest	10,258	71,263
Stock-based compensation (note 8d)	288,956	87,986
	4,356,400	3,742,376
Loss before other items and income taxes	(1,561,525)	(3,620,574)
Interest and other income	64,716	42,449
Write down of inventory	(60,504)	(786,440)
Loss on sale of capital assets	–	(48,518)
Loss before income taxes	(1,557,313)	(4,413,083)
Future income taxes (note 7)	–	–
Net loss	(1,557,313)	(4,413,083)
Deficit, beginning of year	(20,181,774)	(15,768,691)
Deficit, end of year	$(21,739,087)	$(20,181,774)
Loss per share, basic and diluted (note 8d)	$(0.05)	$(0.29)
Basic weighted average shares outstanding	28,596,386	15,044,537

See accompanying notes to financial statements.

Statement of Cash Flows - Year ended December 31, 2003

	2003	2002
Cash flows from operating activities:		
Net loss	$(1,557,313)	$(4,413,083)
Items not involving cash:		
Depreciation and amortization	177,424	204,193
Stock based compensation	288,956	87,986
Warranty liability	70,400	–
Loss on sale of capital assets	–	48,518
	(1,020,533)	(4,072,386)
Changes in non-cash working capital (note 14)	(3,422,450)	(34,264)
	(4,442,983)	(4,106,650)
Financing activities:		
Issue of common shares for cash, net of costs	3,035,101	3,618,478
Issue of convertible debenture	–	2,200,000
Advance on shareholder loan	–	150,000
Capital lease obligations	–	(5,715)
Advance on loans payable	881,000	–
Repayment of loans payable	(25,000)	(625,134)
	3,891,101	5,337,629
Investing activities:		
Investment in short-term investments	–	(1,450,000)
Redemption of short term investments	1,450,000	–
Purchase of capital assets	(170,477)	(250,311)
Proceeds on sale of capital assets	–	821,883
Long-term deposit (redemption)	–	200,000
	1,279,523	(678,428)
Net change in cash and cash equivalents	727,641	552,551
Cash and cash equivalents, beginning of year	686,935	134,384
Cash and cash equivalents, end of year	$1,414,576	$686,935

See accompanying notes to financial statements.

Company organization and operations:

The Company's technology, marketed under the brand name Xplorer™, produces diagnostic quality images digitally. Its purpose is to replace the need for film and chemical film processing as well as the storage and retrieval costs normally associated with traditional x-ray technology.

1. Future operations:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

In 2003, the Company incurred losses of $1,557,313 and used cash resources of $4,442,983 to support operating activities. There can be no assurance that the present and longer-term cash requirements of the Company will be satisfied either from revenues from operations or from future financings. If the Company is unable to attain profitable operations and successfully secure adequate or satisfactory financing as required, there is the possibility that the Company may be unable to continue to realize its assets and to discharge its liabilities in the normal course of business.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying value of assets and liabilities, and to the balance sheet classifications used.

2. Significant accounting policies:

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements.

(a) Basis of presentation:

The financial statements for the comparative years include the accounts of Imaging Dynamics Company Ltd. (the "Company") and its wholly-owned subsidiaries, Imaging Dynamics (America) Corporation and Imaging Dynamics Holding Company Ltd. On March 31, 2002 and October 2, 2003 respectively, the Company wound-up the above subsidiaries. Under the terms of the wind-up, all the assets and properties of the subsidiaries were transferred to the Company and the Company assumes all of their liabilities and obligations. Combined operations will continue in the single corporate entity, Imaging Dynamics Company Ltd.

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents consist of deposits in banks, redeemable deposits and short-term investments with maturities of three months or less.

(c) Inventory:

Inventory is stated at the lower of cost and net realizable value.

(d) Capital assets:

Capital assets are recorded at cost and are depreciated and amortized over their estimated useful lives at the following annual rates and methods:

Patent	10 years straight-line
Technical, lab and computer equipment	30% declining balance
Office equipment	20% declining balance

(e) Revenue recognition:

Revenue is recognized when the Company's product is shipped or when title is transferred.

Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

(f) Research and development:

Research costs are expensed as incurred. Development costs are expensed unless they meet certain criteria related to technical, financial and market feasibility, in which case they are deferred. There were no significant costs which meet the deferral criteria at December 31, 2003 and 2002.

(g) Foreign currency:

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year end exchange rates. The non-monetary assets and liabilities are translated at the transaction date exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings.

(h) Stock-based compensation plan:

The Company uses the fair-value method of accounting for stock options granted to employees and directors after January 1, 2003. Compensation costs are recognized over the vesting period. Fair values are determined using the Black-Scholes option pricing model. The Company uses the intrinsic value method of accounting for stock options granted to employees before January 1, 2003.

2. Significant accounting policies (continued):

(i) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, accounts receivable, accounts payable and accrued liabilities and loans payable. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

(j) Income taxes:

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes that are more than likely to be realized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(k) Warranty:

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management studies trends of warranty claims and takes action to improve product quality and minimize warranty claims.

(l) Per share amounts:

The treasury stock method is used to determine the dilutive effect of stock options and warrants. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock instruments are used to repurchase common shares at the average market rate for the period.

3. Change in accounting policy:

During the fourth quarter of 2003, the Company has early adopted the Canadian accounting standard as outlined in CICA Handbook section 3870, "Stock-based Compensation and Other Stock-based Payments" which requires companies to use the fair-value method of accounting for the stock options granted to employees and directors. As allowed by section 3870, this policy has been adopted prospectively, meaning all prior years have not been restated. The Company records a stock based compensation expense in the Statement of Operations for all options granted on or after January 1, 2003 with a corresponding increase to contributed surplus.

3. **Change in accounting policy (continued):**

Compensation expense for options granted during 2003 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. The Company recognized $288,956 of compensation expense for options granted in 2003. For options granted from January 1, 2002 to December 31, 2002 the Company continues to disclose the pro-forma earnings impact of related stock based compensation expense (see note 8).

4. **Short-term investment:**

In 2002, the short-term deposit was a redeemable deposit of $1,450,000, bearing interest at 3.75% and maturing in 2007. The deposit is redeemable at any time without penalty. In 2003, the deposit was redeemed to support operations.

5. **Capital assets:**

December 31, 2003	Cost	Accumulated depreciation	Net book value
Digital x-ray technology patent	$ 171,423	$ 25,422	$ 146,001
Technical, lab and computer equipment	1,066,118	657,549	408,569
Office equipment	115,401	79,661	35,740
	$ 1,352,942	$ 762,632	$ 590,310
December 31, 2002			
Digital x-ray technology patent	$ 121,214	$ 12,461	$ 108,753
Technical, lab and computer equipment	962,513	498,121	464,392
Office equipment	98,739	74,626	24,113
	$ 1,182,466	$ 585,208	$ 597,258

6. Loans payable:

		2003		2002
Unsecured loan, non-interest bearing and payable in annual installments equal to the lesser of 5% of gross sales or $25,000 per annum	$	114,013	$	139,013
Demand Loan, the Company may draw up to $900,000 on a Demand Loan secured against the assets of the Company as well as Export Development Canada Insurance. The interest rate floats at prime + 1.25% and the loan is payable on demand		850,000		-
Unsecured loan, non-interest bearing and payable in annual installments equal to 4% of gross sales		31,000		-
		995,013		139,013
Less: current portion		906,000		38,678
	$	89,013	$	100,335

7. Income taxes:

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 36.74% (2002 - 39.21%) as follows:

		2003		2002
Computed "expected" tax recovery	$	(572,157)	$	(1,726,398)
Non deductible items		(63,161)		(81,992)
Change in valuation allowance and statutory rate reduction		635,318		1,808,390
	$	-	$	-

The components of the Company's future income tax assets at December 31, 2003 are as follows:

		2003		2002
Future assets:				
Capital assets	$	299,764	$	404,459
Share issue costs		288,475		379,986
Non capital losses and other		7,583,352		6,751,828
		8,171,591		7,536,273
Valuation allowance		(8,171,591)		(7,536,273)
	$	-	$	-

7. Income taxes (continued):

The Company has non-capital losses for income tax purposes in Canada of approximately $15,370,109 which are available to be applied against future years' taxable income. These losses will expire as follows:

2004	$	859,800
2005		374,300
2006		612,700
2007		4,570,600
2008		4,743,800
2009		3,283,206
2010		925,703
	$	15,370,109

As at December 31, 2003, the Company has net operating losses for income tax purposes in the United States of approximately $434,600 (2002 - $434,600). These losses will expire in 2021.

The potential income tax benefits of the losses carried forward, the investment tax credits and the scientific research and experimental development expenditures have not been recognized in these financial statements as their ultimate realization is uncertain.

8. Share capital:

(a) Authorized:

An unlimited number of Common shares

Non-voting redeemable preferred shares without demand or par value and which do not deem an entitlement to dividends

(b) Common shares issued:

	2003		2002	
Common shares issued	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	23,503,833	$ 20,234,516	10,952,951	$ 16,361,783
Issued for:				
Cash	45,000	17,100	9,381,905	3,776,016
Cash on exercise of warrants	5,655,687	2,985,425	26,000	13,000
Cash on acquisitions	–	–	1,251,158	375,347
Conversion of debenture	4,587,859	2,298,144	27,500	13,750
Settlement of debt	–	–	1,804,319	606,439
Exercise of options	90,000	34,200	60,000	30,000
Share issue costs (i)	–	(1,624)	–	(941,819)
Balance, end of year	33,882,379	$ 25,567,761	23,503,833	$ 20,234,516

(i) Share issue costs include 2003 - $nil (2002 - $328,399) of stock based compensation paid to Agents in connection with various financings during the year.

(ii) Under the requirements of the Alberta Securities Commission and the TSX Venture Exchange Inc., the Company currently has 1,080,000 common shares being held in escrow to be released on a pro-rata basis of one share for every $0.20 of cash flow received by the Company, up to a maximum of one third of the escrowed shares in any one year.

In addition to the escrow agreement referred to above, the TSX Venture Exchange Inc. required certain shares issued to the former shareholder of Mika Technologies Inc. and Seventh Wave Capital Corp. to be placed in escrow. Accordingly, the Company currently has 278,389 and 190,408 common shares respectively placed in escrow. The shares will be released at a rate of 15% on each six month anniversary dates from January 1, 2003.

8. Share capital (continued):

(c) Warrants:

Warrants outstanding at December 31, 2003 and 2002 are as follows:

	2003	2002
Balance, beginning of year	15,452,999	818,282
Issued in conjunction with:		
Equity issue (c(i))	–	1,111,111
Prospectus (c(ii))	–	10,400,000
Broker warrants (c(ii))	–	884,000
Amalgamation (c(iii))	–	1,251,158
Bridge loan financing (c(iv))	–	600,000
Broker warrants (c(iv))	–	189,000
Private placement (c(v))	–	567,699
Broker warrants (c(v))	–	220,156
Exercised	(5,655,687)	(26,000)
Expired	(1,169,730)	(562,407)
Balance end of year	8,627,582	15,452,999

(i) In conjunction with an equity issue for cash during 2002, the Company issued 1,111,111 share purchase warrants. Each warrant is exercisable into one common share at an exercise price of $0.60 per share until May 31, 2003 and at $0.75 per share until February 25, 2004. As at December 31, 2003, 555,555 had been exercised. Subsequent to year end, all remaining warrants were exercised.

(ii) In conjunction with a prospectus dated October 2, 2002, the Company issued 10,400,000 warrants entitling the holders to acquire 10,400,000 common shares at $0.50 per share until May 31, 2003, and at $0.75 until February 29, 2004. As at December 31, 2003, 3,747,104 were exercised. Subsequent to year end, 6,410,118 warrants were exercised. During fiscal 2002, 26,000 warrants were exercised. In addition, the Agents were granted warrants to purchase 884,000 common shares at $0.30 per share. These warrants expire April 2, 2004. Subsequent to year end, 861,500 warrants were exercised.

(iii) In conjunction with an amalgamation agreement dated July 24, 2002, the Company issued 1,251,158 warrants, entitling the holders to acquire 1,251,158 common shares at $0.50 per share until May 31, 2003, and at $0.75 per share until February 29, 2004. As at December 31, 2003, 1,027,028 had been exercised. Subsequent to year end, all remaining warrants were exercised.

8. Share capital (continued):

(iv) In conjunction with a bridge loan private placement financing during 2002, the Company issued 600,000 warrants, entitling the holders to acquire 600,000 common shares at $0.60 per share until May 31, 2003 and at an exercise price of $0.75 until February 29, 2004. As at December 31, 2003, 200,000 warrants had been exercised. Subsequent to year end, all remaining warrants were exercised. In addition, the Company granted the Agents options to purchase 126,000 units of the Company, each unit consisting of one common share warrant exercisable at $0.45 per share until December 27, 2003 and one half of one warrant exercisable at $0.60 per share for each full warrant, until February 29, 2004. As at December 31, 2003, 126,000 warrants had been exercised.

(v) In conjunction with a private placement occurring February 19, 2002, the Company issued 567,699 warrants, entitling the holders to acquire 567,699 common share at $1.00. These warrants expire August 15, 2003. These warrants expired without exercised on August 15, 2003. In addition, the Company issued 220,156 Broker Warrants to its Agents entitling the Agents to acquire 220,156 common shares at $0.65. The Broker Warrants are exercisable at any time until August 15, 2003. The Broker Warrants expired without exercise on August 15, 2003.

(vi) In conjunction with the new issue financing during 2001, the Company issued 175,000 Broker Warrants to its Agent entitling the Agent to acquire 175,000 common shares at $2.00 per share. The Broker Warrants expired without exercise on August 31, 2003.

(vii) In conjunction with the issue of Special Warrants during 2001, the Company issued 87,500 warrants, without exercise, entitling the holder to acquire 87,500 common shares at $6.50. In addition, the Company issued 17,500 Broker Warrants to its Agents entitling the agent to acquire 17,500 common shares at $4.00 per share. These Warrants expired without exercise on April 30, 2003.

(d) Stock based compensation plan:
The Company has established a stock-based compensation plan for its directors, officers, consultants and employees and has granted options to purchase 3,214,998 common shares at exercise prices equal to the market value of the shares at the date of grant. The options vest over various periods of up to 3 years. The Corporation can grant up to 10% of the issued and outstanding common shares of the Corporation. As at December 31, 2003, 173,240 options remained in reserve.

8. Share capital (continued):

	2003		2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	1,648,798	$ 0.48	796,766	$ 1.57
Granted	1,819,200	$ 0.41	1,486,840	$ 0.52
Exercised	(90,000)	$ 0.38	(60,000)	$ 0.50
Cancelled	(163,000)	$ 0.49	(574,808)	$ 1.73
Balance	3,214,998	$ 0.44	1,648,798	$ 0.48
Exercisable, end of year	1,933,006	$ 0.45	1,030,710	$ 0.49

Exercise price	Options outstanding	Weighted average contractual life (years)	Weighted average exercise price	Options exercisable	Weighted average exercisable price
$0.35 – $0.60	3,214,998	3.81	$ 0.44	1,800,973	$ 0.46

As described in Note 3, the Company recorded stock-based compensation expense in the Statement of Operations for stock options granted after January 1, 2003 to employees and directors using the fair-value method. Options granted prior to January 1, 2003 are accounted for using the intrinsic value method. If the Company had applied the fair-value method at the grant dates of the awards consistent with methodology prescribed by the CICA Handbook section 3870, the Company's net loss and net loss per share would have been the pro forma amounts for the periods as indicated below:

8. Share capital (continued):

	2003	2002
Net loss		
As reported	$ (1,557,313)	$ (4,413,083)
Less fair value of options	(131,390)	(268,477)
Pro-forma	$ (1,688,703)	$ (4,681,560)

	2003	2002
Net loss per common share – basic and diluted:		
As reported	$ (0.05)	$ (0.29)
Pro-forma	$ (0.06)	$ (0.31)

The weighted average fair market value of options granted during the year ended December 31, 2003 are $0.39 (2002 - $0.26) per option. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

	2003	2002
Risk-free interest rate	3.91%	4.75%
Estimated hold period prior to exercise (years)	5	5
Volatility in the price of the Company's common shares	146%	162%
Dividend yield rate	0.00%	0.00%

(e) Contributed surplus:
Contributed surplus is comprised of the issuance of stock options and warrants to employees and non-employees of the Company.

9. Convertible debentures:

	2003	2002
Opening balance	$ 2,486,250	$ –
Issued, for cash in conjunction with prospectus offering	–	2,200,000
Issued, on conversion of debt	–	300,000
Converted to common shares	(2,298,144)	(13,750)
	$ 188,106	$ 2,486,250

The debentures are non-interest bearing, are secured against the assets of the Company, subordinated to all senior indebtedness, and are convertible into common shares. Each $550 principal amount of the debentures are, at the option of the holders, convertible into 1,100 common shares prior to October 2, 2003 and into 733 common shares prior to April 2, 2004. The Company may, at its option, redeem these debentures at any time. On maturity or redemption the Company may, at its option, elect to satisfy the obligation by the issuance of common shares. Subsequent to year end, the remaining amount of the debentures was converted.

10. Asset acquisition:

Pursuant to an amalgamation agreement dated November 21, 2002 between Imaging Dynamics Holdings Ltd., Mika Technology Inc. ("Mika"), Seventh Wave Capital Corp. ("Seventh Wave") and 976077 Alberta Inc., the Company acquired the shares of Mika and Seventh Wave. Mika, Seventh Wave and 976077 Alberta Inc. were then amalgamated. The consideration consisted of the issuance of a common share for each $0.30 of cash held in Mika and Seventh Wave. The acquisitions were accounted for by the purchase method.

	Mika	Seventh Wave	Total
Assets acquired:			
Cash	$ 203,980	$ 171,367	$ 375,347

	Number	Amount
Consideration:		
Common shares issued	1,251,158	$ 375,347
Warrants issued	1,251,158	–
		$ 375,347

11. Per share amounts:

Basic loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Diluted loss per common share is computed by dividing net loss by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Loss per share on a diluted weighted average basis is the same as that presented for basic, as all factors are anti-dilutive.

	2003	2002
Weighted average shares outstanding		
Basic	28,596,386	15,044,537
Shares issued pursuant to options	572,257	49,980
Shares issued pursuant to convertible debenture	15,130	-
Shares issued pursuant to warrants	791,495	332,590
Diluted	29,975,268	15,427,107

11. Per share amounts (continued):

Per share amounts				
Basic loss	$	(0.05)	$	(0.29)
Diluted loss	$	(0.05)	$	(0.29)

In calculating diluted common share amounts for the year ended December 31, 2003, the Company excluded 1,368,056 options, warrants and convertible debentures (2002 – 20,804,297), because the exercise price was greater than the average market price of its common shares in those years.

12. Commitments:

(a) The Company is committed to payments under operating leases for office premises and equipment approximately as follows:

2004	$	78,099
2005		94,933
2006		99,501
2007		106,500
2008		115,500
2009		9,750

(b) The Company is committed to purchase inventory under a purchase agreement for components approximately as follows:

2004	$	180,000
2005		360,000
2006		360,000

13. Related party transactions:

During the year, the Company had the following transactions with related parties:

a) Incurred expenses in the amount of $32,000 US (2002 - $Nil) to a company with common directors, of which $16,000 US (2002 - $Nil) is included in accounts payable and accrued liabilities. The transaction amount was agreed to by the related parties and approximated fair market value.

b) During the year, the Company paid legal costs in the amount of $57,764 (2002 - $244,430) to a Director's law firm. These transactions were measured at the exchange amounts which was the amount of consideration established and agreed upon by the related parties.

14. Supplemental cash flow information:

Change in non-cash operating capital:

	2003	2002
Changes in non-cash working capital		
Accounts receivable	$ (4,560,234)	$ (241,655)
Prepaids and deposits	(44,565)	39,141
Inventory	544,175	695,460
Accounts payable and accrued liabilities	615,041	(529,820)
Deferred Revenue	23,133	2,610
	$ (3,422,450)	$ (34,264)
Interest paid	$ 10,258	$ 52,359

15. Financial instruments:

The Company is exposed to fluctuations in interest rates and Canada/U.S. exchange rates. The Company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

(a) **Interest rate risk**

The Company is exposed to changes in interest rates as a result of the demand loan, bearing interest of the Company's lenders' prime rate.

(b) **Foreign currency risk**

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar with respect to assets denominated in U.S. dollars and sales to U.S. purchasers. The Company monitors fluctuations and takes action, if deemed necessary, to mitigate its risks.

(c) **Credit risk**

Accounts receivable include amounts receivable for normal rate which are generally made to credit worthy purchasers. Accordingly, the Company views credit risks on these amounts as low.

The Company is exposed to losses in the event of non-performance by counter-parties to these financial instruments. The Company deals with major institutions and believes these risks are minimal.

16. Subsequent Events:

a) Subsequent to year end, the Company issued an additional 8,451,303 shares on the exercise of warrants for gross cash proceeds of $5,921,636. As well, an additional 250,808 shares were issued on the reduction of the debenture in the amount of $188,106.

b) In addition, on April 1, 2004, the Company reached an agreement with Sprott Securities Inc. ("Sprott") pursuant to which Sprott has agreed to purchase 5,000,000 common shares on an underwritten private placement basis, at a price of $1.80 per common share for aggregate cash proceeds to the Company of $9 million. Sprott also has the option to purchase an additional 555,556 common shares at the issue price at any time prior to closing. The Company intends to use the proceeds for expanding the distribution channels in the U.S., Europe and Asia, developing further product lines based on the core technology and for general working capital.

The offering is scheduled to close on or about April 20, 2004 and is subject to certain conditions including, but not limited to, satisfactory due diligence and the receipt of all necessary approvals including the approval of the TSX Venture Exchange.

17. Comparative figures:

Certain of the comparative figures have been restated to conform to the current year presentation.

QUARTERLY REPORT
BC FORM 51-901F

BCSC BRITISH COLUMBIA SECURITIES COMMISSION (BCSC)

ISSUER DETAILS		DATE OF REPORT
NAME OF ISSUER	**FOR QUARTER ENDED**	**YY/MM/DD**
IMAGING DYNAMICS COMPANY LTD.	December 31, 2003	04/04/15
ISSUER ADDRESS		
# 151, 2340 PEGASUS WAY N.E.		
CITY / PROVINCE / POSTAL CODE	**ISSUER FAX NO.**	**ISSUER TELEPHONE NO.**
CALGARY / AB / T2E 8M5	(403) 251-1771	(403) 251-9939
CONTACT NAME / CONTACT POSITION		**CONTACT TELEPHONE NO.**
KARIM TEJA / SENIOR V.P. AND CFO		(403) 251-9939
CONTACT EMAIL ADDRESS	**WEB SITE ADDRESS**	
kteja@imagingdynamics.com	www.imagingdynamics.com	

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD
"Signed"	JOHN RAMSAY	04/04/15
DIRECTOR'S SIGNATURE	**PRINT FULL NAME**	**DATE SIGNED YY/MM/DD**
"Signed"	DARRYL STEIN	04/04/15

INCORPORATED AS PART OF:

		Yes	No
Schedule A:	Financial Statements	[X]	[ ]
Schedule B:	Supplementary Information	[X]	[ ]
Schedule C:	Management Discussion and Analysis	[X]	[ ]

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. **Analysis of expenses and deferred costs:**
   See Financial Statements

2. **Related party transactions**
   See Financial Statements

3. **Summary of Securities issued and options granted during the period:**
   a) Summary of shares issued for the quarter ending December 31, 2003

Date	Purpose	Shares	Price ($)	Proceeds ($)	Consideration	Commission ($)
1-Oct-03	Conversion of Debenture	275,000	0.50	137,500	Reduction of Debenture	0
2-Oct-03	Conversion of Debenture	776,000	0.50	388.000	Reduction of Debenture	0
12-Nov-03	Exercise of Warrants	126,000	0.45	56,700	Cash	0
14-Nov-03	Conversion of Debenture	5,864	0.75	4,398	Reduction of Debenture	0
3-Dec-03	Conversion of Debenture	7,330	0.75	5,497	Reduction of Debenture	0
9-Dec-03	Conversion of Debenture	3,665	0.75	2,749	Reduction of Debenture	0
10-Dec-03	Issue of shares	45,000	0.38	17,100	Cash	0
24-Dec-03	Exercise of Warrants	555,555	0.75	416,667	Cash	0
29-Dec-03	Exercise of Warrants	100,000	0.75	75,000	Cash	0
		1,894,414		**1,103,611**		

b) Summary of stock options granted during the quarter:

Grant Date	Type of Options	Share Options Granted	Exercise	Expiry Date	Date Approved
10-Oct-03	Director and Consultant Options	100,000	0.60	30-Oct-03	30-Oct-08
12-Dec-03	Employee Options	249,500	0.60	2-Dec-03	2-Dec-08
		349,500			

c) Summary of warrants issued during the quarter:
None issued during the quarter

d) Summary of convertible debentures issued during the quarter:
None issued during the quarter

4. SUMMARY OF SHARE CAPITAL, STOCK OPTIONS, WARRANTS, CONVERTIBLE DEBENTURE SECURITIES AND SHARES HELD IN ESCROW AT DECEMBER 31, 2003

a) **Authorized Capital:** Unlimited
Par Value: N.P.V.

b) **Issued and outstanding:** 33,882,379 Common Shares
Share Capital: $25,567,761

c) **Schedule of Stock Options Outstanding:**

Description	Shares	Price ($)	Amount ($)	Expiry Date
Consultant	10,000	$0.38	3,800	12/1/07
Consultant	50,000	$0.40	20,000	12/1/04
Officer Options	46,666	$0.50	23,333	4/26/04
Director and Officer Options	123,992	$0.50	61,996	11/24/04
Officer Options	20,000	$0.50	10,000	6/1/04
Employee Options	4,000	$0.50	2,000	8/1/05
Employee Options	1,800	$0.50	900	12/4/05
Employee Options	3,000	$0.50	1,500	4/2/06
Director and Officer Options	110,000	$0.50	55,000	6/1/06
Director, Officer and Employee Options	871,000	$0.50	435,500	6/5/07
Employee Options	7,500	$0.38	2,850	8/16/07
Employee Options	15,000	$0.38	5,700	10/7/07
Employee Options	75,000	$0.38	28,500	11/7/07
Director Options	198,340	$0.50	99,170	12/1/07
Officer Options	10,000	$0.50	5,000	12/1/07
Employee Options	12,000	$0.50	6,000	04/30/08
Consultant Options	10,000	$0.50	5,000	04/30/08
Employee Options	1,297,200	$0.35	454,020	07/07/08
Director and Consultant Options	100,000	$0. 60	60,000	10/30/08
Employee Options	249,500	$0.60	149,700	12/02/08
	3,214,998		1,429,969	

d) **Schedule of Share Purchase Warrants:**

Description	Shares	Price ($)	Amount ($)	Expiry Date
Bridge Loan (2)	400,000	0.75	300,000	02/29/2004
Broker Warrants (2)	63,000	0.65	40,950	02/29/2004
Broker Warrants (3)	884,000	0.30	265,200	04/02/2004
Prospectus Offering (4) – Warrants	6,626,896	0.75	4,970,172	02/29/2004
Private Placement (4) – November 20, 2002	224,130	0.75	168,098	02/29/2004
Private Placement (5) – December 11, 2002	555,556	0.75	416,667	02/29/2004
	8,753,582		6,161,087	

*Notes:

(1) On November 2, 2001, the company completed a consolidation of the Corporation's issued and outstanding common shares on a one (1) (new) for five (5) (old) basis. The consolidation triggered a corporate name change from Imaging Dynamics Corporation to Imaging Dynamics Company Ltd. Shares are indicated as post consolidation figures.

(2) In conjunction with a bridge loan private placement financing during 2002, the Company issued 600,000 warrants, entitling the holders to acquire 600,000 common shares at $0.60 per share until May 31, 2003 and at an exercise price of $0.75 until February 29, 2004. In addition, the Company granted the Agents options to purchase 126,000 units of the Company, each unit consisting of one common share warrant exercisable at $0.45 per share until December 27, 2003 and one half of one warrant exercisable at $0.60 per share for each full warrant, until February 29, 2004. The 126,000 warrants were exercised prior to year end.

(3) In conjunction with a prospectus dated October 2, 2002, the Company issued 10,400,000 warrants entitling the holders to acquire 10,400,000 common shares at $0.50 per share until May 31, 2003, and at $0.75 until February 29, 2004. During fiscal 2002, 26,000 warrants were exercised. During fiscal 2003, 3,747,104 warrants were exercised. In addition, the Agents were granted warrants to purchase 884,000 common shares at $0.30 per share. These warrants expire April 2, 2004.

(4) In conjunction with an amalgamation agreement dated July 24, 2002, the Company issued 1,251,158 warrants, entitling the holders to acquire 1,251,158 common shares at $0.50 per share until May 31, 2003, and at $0.75 per share until February 29, 2004. In fiscal 2003, 1,027,028 warrants had been exercised.

(5) In conjunction with an equity issue for cash during 2002, the Company issued 1,111,111 share purchase warrants. Each warrant is exercisable into one common share at an exercise price of $0.60 per share until May 31, 2003 and at $0.75 per share until February 25, 2004. In fiscal 2003, 555,555 warrants had been exercised.

Schedule of Convertible Debenture:

Description	Shares	Price ($)	Amount ($)	Expiry Date
Prospectus Offering – Convertible Debenture	250,808	0.75	188,106	April 2, 2004

d) **Shares Held in Escrow or Subject to a Pooling Agreement:**
1,548,797 common shares

5. Directors and Officers as at December 31, 2003:

Directors		Officers	
John T. Ramsay, Q.C.	Calgary, AB	Darryl Stein – President and CEO	Calgary, AB
Richard M. Barno	Boston, MA	Karim Teja – Sr. VP and CFO	Calgary, AB
Darryl Stein	Calgary, AB	Robin Winsor – Chief Technical Officer	Calgary, AB
		Gregory E. Peterson – Corporate Secretary	Calgary, AB

idc

idc
imaging dynamics

151 - 2340 Pegasus Way NE, Calgary, AB T2E 8M5

tel: 403.251.9939 | fax: 403.251.1771

info@imagingdynamics.com | www.imagingdynamics.com

DIGITAL RADIOGRAPHY MADE SIMPLE